

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE MAY 24, 2017 PENSION BOARD BUSINESS MEETING

1. Call to Order

The Chairman called the meeting to order at 8:05 a.m. in the East Ballroom of the Italian Community Center, 631 East Chicago Street, Milwaukee, WI 53202.

2. Roll Call

Members Present

Linda Bedford
Laurie Braun (Vice Chair)
Daniel Byrne
Aimee Funck
Michael Harper
William Holton
Patricia Van Kampen
David Zepecki
Norb Gedemer (Chairman)

Members Excused

Others Present

Margaret Daun, Corporation Counsel
Amy Pechacek, Interim Director-Retirement Plan Services
James Carroll, Assistant Corporation Counsel
Tina Lausier, Fiscal Officer
CJ Pahl, Budget and Management Coordinator, Office of the Comptroller
Brett Christenson, Marquette Associates, Inc.
Christopher Caparelli, Marquette Associates, Inc.
Steven Huff, Reinhart Boerner Van Deuren s.c.
Jessica Culotti, Reinhart Boerner Van Deuren s.c.

3. Minutes—April 26, 2017 Pension Board Meetings

The Pension Board reviewed the minutes of the April 26, 2017 Pension Board meeting.

The Pension Board unanimously approved the minutes of the April 26, 2017 Pension Board meeting. Motion by Mr. Byrne, seconded by Mr. Holton.

4. Marquette Associates Report & Investment Policy

Brett Christenson and Christopher Caparelli of Marquette Associates distributed the April 2017 monthly report.

Mr. Christenson briefly discussed net-of-fees performance as of April 30, 2017. The total Fund composite is up at 5% year-to-date. The Fund's active managers have also performed well year-to-date. Mesirow exceeded its benchmark by 3.1% year-to-date and it is up another 1.6% month-to-date in May. Mr. Christenson recommended waiting several months to have Mesirow present to the Investment Committee because it is in the midst of a performance rebound. Under hedged equity, ABS is up at 5.4% year-to-date. OFI, the Fund's emerging markets active manager, is up at 14% year-to-date versus its benchmark at 13.9%. However, Mr. Christenson reported that a portfolio manager recently left the OFI investment team and recommended placing OFI on alert for organizational issues. Under the infrastructure composite, IFM is up at 8% year-to-date and J.P. Morgan is up at 2.5% year-to-date.

Mr. Byrne observed that the Fund's fixed income composite is underperforming the benchmark by 70 basis points year-to-date. Mr. Byrne questioned if the year-to-date performance is an accurate read or whether the recent transaction between J.P. Morgan and Galliard may be distorting the data.

Mr. Christenson suggested the recent transaction between J.P. Morgan and Galliard could be negatively affecting the year-to-date fixed income return. However, Mr. Christenson explained that Marquette must reconcile all the data at quarter-end to determine accurate year-to-date fixed income returns.

Mr. Caparelli added that due to the cost of the trade between J.P. Morgan and Galliard, the fixed income composite could reflect some underperformance at quarter-end.

The Pension Board voted unanimously to place OFI Institutional Asset Management on alert for organizational issues. Motion by Ms. Van Kampen, seconded by Ms. Braun.

Ms. Lausier then discussed ERS's Statement of Investment Policy. Ms. Lausier explained that the Pension Board approved changes to the Fund's asset allocations in July 2016. However, the Pension Board never formally approved the corresponding changes in the Statement of Investment Policy. Ms. Lausier then asked the Pension Board to approve ERS' July 2016 Statement of Investment Policy.

In response to a question from Ms. Braun, Mr. Christenson stated that Marquette thoroughly vetted the Investment Policy in 2016 and had no further comments to provide.

In response to a question from Ms. Van Kampen, Mr. Christenson confirmed the Pension Board recently approved a change to the Fund's asset allocation to shift 2.5% of assets from mid cap growth to mid cap core. Mr. Christenson suggested if the Board agreed, it could approve the July 2016 Statement of Investment Policy with the 2.5% change from mid cap growth to mid cap core included as an amendment to the policy.

The Pension Board voted unanimously to adopt ERS's July 2016 Statement of Investment Policy, with the change to convert 2.5% of assets from mid cap growth to mid cap core included as an amendment. Motion by Ms. Bedford, seconded by Mr. Holton.

5. Investment Committee Meeting—May 8, 2017

Mr. Byrne reported on the May 8, 2017 Investment Committee meeting. The Investment Committee first discussed Mesirow. Marquette reviewed Mesirow's six-month performance relative to its benchmark. The Committee was pleased with Mesirow's recoupment of performance in the early portion of 2017. The Committee agreed that it would be beneficial to have Mesirow present at an upcoming Investment Committee meeting. Mr. Byrne noted it would better inform the Committee's decision if Mesirow could explain to the Committee why its performance has improved.

The Investment Committee next discussed asset class assumptions. Marquette presented simulated risk/return characteristics for all asset classes. Mr. Byrne explained that the Investment Committee is relatively comfortable with the Fund's current asset allocation but is considering making minor recommended changes later in the year.

The Investment Committee then discussed active versus passive management. The Committee continued its ongoing discussion regarding the pros and cons of active versus passive investments. Marquette will present additional data at the next Investment Committee meeting relative to the historical performance and volatility of active versus passive investments. Mr. Byrne noted it is the general view of the Committee to increase passive investments in the Fund.

The Investment Committee next discussed asset allocation. Marquette reviewed minor potential changes to the current asset allocation and discussed four possible alternative options designed to maximize future returns and minimize risk. The Committee will continue its analysis and will present any recommended changes to the full Board later this year. The Committee would like to focus greater attention on the Fund's general asset allocation and less on individual managers.

The Investment Committee concluded by discussing the results of the Vertas transition. Marquette reported the transition from J.P. Morgan to Galliard went smoothly. However, the final cost of the transaction came in at the higher end of the pre-trade estimate. The higher cost was primarily due to the fact that the J.P. Morgan fixed income portfolio contained many smaller positions that were difficult to sell. Despite the cost, the Committee believes the overall process was successful. Mr. Byrne reported that ERS is now up and running with Galliard.

6. Audit Committee Meeting—May 11, 2017

Mr. Harper reported on the May 11, 2017 Audit Committee meeting. The Audit Committee first discussed interest applied to corrective payments. Mr. Huff discussed recent communications with the Internal Revenue Service regarding interest applied to overpayments/underpayments and possible courses of action.

The Committee then discussed interest applied to membership accounts. Retirement Plan Services ("RPS") would like to standardize the method for calculating interest on employee membership accounts containing required ERS contributions. Currently, the V-3 system and the Fiscal Office use different methods to calculate interest on membership accounts. The Committee discussed whether the Ordinances and Rules provide the proper guidance or whether the practice should be further documented to provide greater consistency. This could result in some reprogramming of the V-3 system. Ms. Moreno will provide a reprogramming cost estimate at the next Audit Committee meeting.

The Audit Committee next discussed the V-3 project plan. Ms. Moreno presented a tentative V-3 project plan summarizing the various reprogramming updates and enhancements to be implemented to the system through 2017. Ms. Moreno also discussed a plan that will help manage the transition of responsibilities from the co-development staff to RPS staff once the V-3 update nears completion.

The Audit Committee continued with a discussion of RPS staffing. A recent retirement and other changes within RPS have resulted in the loss of experienced staff. Ms. Pechacek discussed an interim team reorganization plan designed to fill any voids and efficiently allocate resources until permanent replacements can be hired within RPS. The Committee discussed the possibility of requesting temporary support from the County Clerk to assist with the creation of Pension Board and Committee meeting materials. The Committee also discussed some of the value-added services provided by outside counsel at Reinhart. The Committee agreed to continue the discussion at a future meeting.

The Audit Committee concluded with a discussion of benefit calculation errors and corrections. The Committee received a copy of a legal opinion from Attorney John Nixon at Duane Morris to Milwaukee County and a related memorandum from Corporation Counsel. The legal opinion addresses issues surrounding the temporary abatement of new collection proceedings and interest rate bifurcation until the agreed-upon procedures review and related fiscal analyses are completed. Mr. Harper explained that Attorney Nixon presented his legal opinion to the County Board Finance and Audit Committee and it took no action on the matter. Mr. Harper reported the matter requires no action from the Pension Board and Corporation Counsel will keep the Audit Committee and Pension Board apprised of future developments.

Ms. Braun noted that the County Board Finance and Audit Committee asked Attorney Nixon to provide a concise summary of his 14-page legal opinion. Ms. Braun requested that a copy of Attorney Nixon's summary be provided to the Pension Board.

In response to a question from Ms. Braun, Mr. Carroll confirmed the County Board Finance and Audit Committee referred the matter back to the office of Corporation Counsel for follow-up on certain potential short-term measures stated in Attorney Nixon's legal opinion. Mr. Carroll also confirmed his office will keep the Pension Board apprised of any further developments.

Ms. Daun stated that when the overpayment abatement issue was first discussed, several County Supervisors expressed interest in pursuing it as an

option while the IRS agent reviews the 2014 Supplemental Voluntary Correction Program submission ("2014 VCP"). Ms. Daun also stated that Attorney Nixon's legal analysis was very effective for two reasons. First, the legal analysis established that it is best to take a very deliberative and steady approach when faced with solving such complex issues. Second, Attorney Nixon clearly illustrated in his presentation that the calculations, which may at first appear to be simple, are extremely complex. Ms. Daun suggested that Attorney Nixon's analysis helped educate the County Board to the complexities involved with the VCP. Ms. Daun thanked the Pension Board for assisting in obtaining the County legal opinion from outside counsel.

7. Report on Compliance Review

Ms. Pechacek provided an update on the Baker Tilly agreed-upon procedures review. Baker Tilly is in the sixth week of its review. Ms. Pechacek explained that the agreed-upon procedures review is an extensive supplemental audit that was requested by the Pension Board, the County Board and the County Executive. The audit will be performed in three phases. The first phase focuses on approximately six benefit categories. The categories were selected based on input from RPS staff, the office of Corporation Counsel and the Comptroller's office. Phase one is designed to determine if benefits are being paid correctly to populations within ERS that have been historically affected by vague Ordinances or other misinterpretations and process issues. Certain areas affected in phase one include survivor benefits, worker's compensation offsets, IRS Code Section 415 limits and re-retirements. Baker Tilly will also randomly audit 50 individuals in phase one to ensure there are no possible unknown issues. Ms. Pechacek noted that phase one of the audit is roughly on schedule. Phase two is scheduled to begin on July 1, 2017 and will focus on any issues discovered in phase one. Ms. Pechacek reported that certain documentation issues have been encountered in phase one where files are incomplete. RPS is working diligently with Baker Tilly to locate any missing records. Two to seven of Baker Tilly's auditors are working in RPS daily. This requires RPS staff to devote a great amount of time to answering questions and locating files.

Baker Tilly will hold another internal project status meeting with the Interim Director of RPS, the Comptroller and the Audit Department next week to gauge the progress of phase one of the audit. Ms. Pechacek stated the goal is to complete phase one on time. However, any incomplete portions of phase one may be shifted to phase two to ensure Baker Tilly can meet the goal of presenting to the Pension Board at its June 28, 2017 meeting.

Ms. Pechacek noted the IRS has granted an extension for the 2014 VCP resubmission through December 2017. Any additional information uncovered through the agreed-upon procedures review will also be incorporated into the 2014 VCP. Phase three is the consulting recommendation phase and will address any process improvements that may assist RPS in its administration of pensions going forward. Phase three is scheduled to conclude near September 2017. Following the completion of phase three, Baker Tilly will present another report to the Pension Board with its findings.

8. Administrative Matters

The Pension Board discussed a request by Ms. Daun and Mr. Carroll to attend the National Association of Public Pension Attorneys 2017 Legal Education Conference ("NAPPA Conference") on June 27-June 30 in Monterey, California.

Ms. Bedford stated that she understood the rationale for Mr. Carroll attending the NAPPA Conference. However, Ms. Bedford questioned the need for the Pension Board to approve the use of ERS funds to allow Corporate Counsel to attend.

Ms. Daun suggested it would be appropriate for the Board to approve her attendance because the NAPPA Conference relates to pension-specific matters, particularly to conflicts of interest and ethical obligations in serving trustee boards. Ms. Daun explained the NAPPA Conference is particularly valuable because it offers information on legislative updates. Ms. Daun noted that she would focus on topics that are most relevant to her service to the Pension Board. Ms. Daun stated her ability to attend the NAPPA Conference is schedule-dependent. Ms. Daun also stated that if she does attend, she will be strategic with her travel itinerary to reduce costs as much as possible.

In response to a question from Mr. Holton, Ms. Daun explained that someone from the Office of Corporation Counsel would attend the June 28, 2017 Pension Board meeting. Ms. Daun explained that she or Mr. Carroll could be present at the June Board meeting in person or telephonically.

Ms. Braun noted the Pension Board has historically approved NAPPA conference attendance for only one representative at the Office of Corporation Counsel. Ms. Braun noted that besides the Pension Board, Ms. Daun also represents and provides pension plan advice to other County entities, such as the County Executive's office and the County Board.

Ms. Braun questioned whether it may be more appropriate for the attorneys to also explore other funding avenues. Ms. Braun suggested possible alternate funding avenues could include other County entities receiving pension plan policy advice and/or the seminar expense reimbursement available to members of the Association of Milwaukee County Attorneys.

Ms. Daun responded to Ms. Braun by noting it is not unusual for the City of Milwaukee to approve conference attendance for two or three attorneys that advise to its pension fund. Ms. Daun suggested the expense is easily justifiable from a fiduciary obligation perspective. Ms. Daun also noted that she and Mr. Carroll provide different levels of expertise and each would glean different information from the conference. Ms. Daun also noted that since the Pension Board will primarily benefit from her attendance at the NAPPA Conference, the most appropriate funding source is the Pension Trust.

Mr. Byrne noted that he relies on the judgement of Corporation Counsel in determining who needs to attend the conference.

In response to a question from Mr. Harper, Mr. Carroll and Ms. Daun stated the early registration fee to attend the NAPPA Conference is \$895 per participant. Travel and lodging expenses would be in addition to the registration fee.

The Pension Board unanimously approved registration, airfare and lodging costs for Ms. Daun and Mr. Carroll to attend the June 27-June 30, 2017 NAPPA Legal Education Annual Conference in Monterey California. Motion by Mr. Zepecki, seconded by Ms. Funck.

9. Adjournment

The meeting adjourned at 8:55 a.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board